

State Comptroller Report

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A b s t r a c t s



State of Israel

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Foreword

This audit report is the second part of the annual audit report, submitted to the Knesset according to the State Comptroller's Law, 1958 [Consolidated Version]. This audit report deals mainly with the defense system, and it includes an audit on Money Laundering Prohibition Authority. It should be noted that, two reports on the preparedness and readiness of the Israeli government and the defense system to contend with the third circle threats, were submitted to the Prime Minister but due to their sensitivity and to maintain the state's security, they will not be made public.

This audit report also expresses the State Comptroller Office's vision, to position the state audit as an innovative, relevant, effective audit that motivates action. This audit report includes 15 different and diverse issues concerning the defense system – in the operational sphere, in national-strategic operation, in the financial field, the living conditions of those serving in the IDF, and more. All the issues are important; however, it is impossible to review them all in the introduction, and therefore, following is a review of only some of them:

- **The Aerospace Domain** – the aerospace is a strategic domain for the State of Israel, and its national security importance has been increasing in recent years. Since the mid-1990s, the defense system has been operating an array of satellites to collect intelligence from space, including several "Ofek" satellites. The administration of the "Etgar" program is responsible for the development and manufacturing of satellites for the defense system, and its annual budget in 2016–2024 was several hundred million NIS. The audit on **The "Etgar" Program Administration – Observation Satellites in the Defense System**, raised deficiencies, including the failure to establish a national policy in civil and military space and a national space program, and the lack of regularization and regulation of the space warfare at the national level. The audit also found certain gaps in providing the required response to the IDF's satellites operational needs. Given the importance of the aerospace domain to the State of Israel, it is recommended that the National Security Council, the Ministry of Defense and the IDF formulate an overall concept, civilian and military of the aerospace domain, determine the required resources for its implementation and present it to the political-security cabinet.
- **The Missile Boats in the Defense of the Maritime Space in Combat** – the State of Israel's coastline is the main foreign trade gateway. The maritime space extending from the coast to a distance of about 115 nautical miles is the country's exclusive economic zone and is also called "the economic waters". During the audit period on **the missile boats in the defense of the maritime space in combat** three gas rigs were in the State of Israel's economic waters and one backup LNG regasification vessel, threatened by various parties. To protect the economic waters, four Sa'ar 6 missile boats were purchased, however a four years delay occurred in the completion of the process



of their becoming operational, which was planned for the beginning of 2019. Given the development of the threats, it is recommended that the Chief of Staff direct an examination of the operational need for the missile boats in the marine branch and formulate, accordingly, a building up force plan, and it is also recommended that the plan be implemented and validated in a timely manner according to the updated reference scenarios.

- **Effectiveness of the Seam Zone Barrier** – in July 2001, the political-security cabinet decided to approve a comprehensive plan of the Seam Zone, as a component in effectively coping with terrorism. Unfortunately, in the first half of 2022, terrorists who infiltrated Israel through breaches in the Seam Zone fence carried out three attacks, claiming the lives of 11 murder victims. In the audit on **the effectiveness of the Seam Zone barrier – the operational and functional response**, it was noted that the length of the Seam Zone route is 554 km – 124 km in the form of a wall, 364 km in the form of a fence and 66 km without any barrier at all. It was raised that as of the end of 2021, 48% of the Seam Zone fence were inadequate, and enabled infiltration without warning, and that as of May 2022, an average of 3,600 infiltrations occur in Israel every day through breaches in the Seam Zone fence. To ensure maintenance of the barrier effectiveness and that the investments of approximately NIS 400 million and the actions that have recently been carried out will reduce the phenomenon of infiltration as a whole, and following the Prime Minister and the Minister of Defense statements in April 2022 that establishing the barrier along the entire length of the seam, as part of the defense concept, requires a multi-year plan – the National Security Council should ensure the formulation of a comprehensive multi-year plan. This plan will be formulated under the leadership of the National Security Council with the cooperation of an inter-ministerial team including representatives from the defense system, the Ministry of Internal Security, the Ministry of Justice, the Ministry of Finance and other relevant bodies. Under the framework of the plan formulating, ways to encourage Palestinians holding employment permits to enter Israel through the regulated crossings should be examined, by adjusting the number of crossings, their location and the quality of service provided therein to the desired number of people passing through them. It is further recommended that upon completing the formulation of the multi-year plan, the Prime Minister and the Minister of Defense submit the plan for discussion to the political-security cabinet for its approval, allocate budgets and define an implementation schedule. These, will reduce the phenomenon of the unlawful residents and the security and criminal risks associated with them, affecting the sense of security in Israel.
- **Living Conditions and Infrastructure in the IDF** – decent and respecting living conditions and infrastructure affect, among other things, the IDF's readiness and the motivation of soldiers in mandatory service and in the reserves to serve in it. In addition, the infrastructure of the residences – the toilets and showers, the dining rooms and the kitchens – impact the effectiveness of education, training and the fulfillment of operational activity tasks by the fighters. In the audit on **Infrastructures & Living**



Conditions for Mandatory and Reserve Combatants, it was noted that the budget the IDF planned to allocate to 'Tahal' (Required Infrastructure for the Soldier) programs for 2016–2021 was NIS 256 million for teaching bases and NIS 420 million for training base programs. The actual budget was NIS 202.6 million and NIS 290 million, respectively. From the competency scores of the logistical systems in the IDF, the tours conducted by the State Comptroller's Office in various units in the IDF, and the survey it conducted among mandatory service soldiers, it was raised that despite the importance of adequate living conditions and infrastructure in the education bases, training bases, and outposts – soldiers in mandatory service and in the reserves encounter infrastructures that are in moderate and even poor condition. This is reflected in dilapidated infrastructure in residences, toilets, showers, dining rooms and kitchens. According to the State Comptroller's Office survey, the rate of those "partially satisfied" with the living conditions and infrastructure in the training bases and outposts was 29%–40%, and the rate of those "very dissatisfied" was 31%–36%.

It should be noted that in October 2022 a special interim report was published presenting the State Comptroller's findings in the visit to the training base of the Kfir Brigade in the Jordan Valley and the Yakir outpost in Samaria.

It is recommended that the IDF draw lessons from the above situation report and provide a response to the disparities in the living conditions and infrastructure of the fighters.

- **the Shoham 3 Program** – the budget of Shoham 3 program, which is a strategic national program, was approximately NIS 18.5 billion. Within its framework the defense system and the Israel Land Authority are working to relocate IDF bases from high-demand areas, to market the land in the bases being vacated and increase the supply of housing units. In the audit on the **Implementation of the Shoham 3 Program – The Relocation of IDF Bases to Market Housing Units in High Demand Areas**, it was raised that as of the audit completion, the defense system had vacated approximately 65% of all the land that was supposed to be vacated according to the program, and that of the approximately 69,185 housing units planned to be built on the lands of the vacated bases, 11,404 housing units had been sold as of that date (about 16.5%), and the construction process of 6,855 housing units (about 10% of the housing units that are planned to be built according to the program and about 60% of the units sold) has begun. The most significant delays are in the PFI projects, and they affect the national-strategic aspect of the housing crisis, since the marketing of approximately 15,929 to 22,680 housing units, most of them in the center of the country, is delayed. As of the audit completion, the Israel Lands Authority, the Ministry of Defense and the Ministry of Finance have not agreed upon the bases and compounds to be evacuated as part of future evacuation plans, to enable the construction of at least 30,694 housing units (of which 586 are for sheltered housing) and at least 100 units for hotels and the use of approximately 1,765 thousand sqm. for commerce and employment. Since the Shoham 3 program is of national and security importance, the State Comptroller's Office recommends that all the relevant bodies – the Israel Lands Authority, the Ministry of



Defense and the Ministry of Finance – comprehensively and thoroughly examine the implementation of the program and its management, to apply lessons and optimize the work processes concerning future agreements for the evacuation of military bases. It is further recommended that the Minister of Construction and Housing, in coordination with the Minister of Defense and the Minister of Finance, initiate a discussion in the Housing Cabinet regarding the examination of the options for evacuating more IDF bases from the center of the country for construction and housing purposes from the total area of the IDF bases that will remain after the implementation of the Shoham 3 program (about 60,000 thousand sqm.), and formulate a national level policy from which a multi-year operative plan will be derived.

In the report on living conditions and infrastructure for mandatory service soldiers and in the reserves, it was stated that soldiers encounter poor infrastructure in the bases. It was also noted that, as a rule, the Shoham 3 program was not intended to address infrastructure gaps in existing bases where fighters serve. Hence, it is recommended that the IDF, within the framework of a multi-year plan for the establishment of infrastructure and within the framework of future evacuation plans, prioritize the establishment of new bases for fighters.

- **Rafael** – Rafael is one of the largest government companies in the State of Israel. It engages in defense, including the development and manufacturing of weapons for the IDF and the sale of a variety of defense products around the world. The preservation of its business and financial robustness is in the state's defense and economic interest. The report includes an audit of **The Financial Statements of Rafael Advanced Defense Systems Ltd. – State of the Company and its Risks**. The analysis of Rafael's business results in recent years indicates that alongside cumulative revenues of approximately NIS 46.5 billion in 2017–2021 and cumulative profits of approximately NIS 4.5 billion as of December 31, 2021, the company is facing difficulties, including a decrease in its revenues (without the subsidiaries) in 2020 and 2021; A decrease in operating profit compared to 2020; and operating loss forecasts in some of the projects. Furthermore, as of the end of 2021, only four directors actually served in the company, compared to ten in the Electric Company and nine in Israel Aerospace Industries. The State Comptroller's Office recommends that Rafael's management update its strategic plan, among other things, according to the audit's findings and recommendations and with the financial goals that will be agreed upon with the Government Companies Authority, and that the plan be submitted to the board of directors for consideration and approval. It is further recommended that the Government Companies Authority monitor the process of the plan formulation and its implementation.
- **The Building up of Force in the Operational Field** – in the last two decades, the battlefield has changed gradually but substantially. The audit on **A Specific Plan for Building Up of Force** raised disparities regarding the improvement of the capabilities of the fighters, and the State Audit Affairs Committee's subcommittee decided to impose confidentiality on these disparities and not to make them public. The audit also found



deficiencies in the work processes of the IDF and the Ministry of Defense in initiating and controlling certain weapons projects.

- **Follow-up Audits** – the State Comptroller's Office continues the trend of expanding the scope of follow-up audits. This report includes a follow-up audit on the **Attending to Lone Soldiers Throughout Their Military Service and After Discharge and on Israeli Administrated Industrial Zones in Judea & Samaria**.
- The fight against money laundering indirectly affects the majority of Israeli citizens, who are required to comply with various regulatory provisions. As part of the efforts to fortify and strengthen the anti-money laundering regime and fight terror financing in Israel, and following the international audit from 2018, the State Comptroller's Office conducted two comprehensive audits in 2020–2022 on the implementation of the money laundering regime in Israel: (a) The first audit was published in May 2021 and dealt with the examination of the systemic activity of all relevant enforcement and regulatory bodies on the subject; (b) The second audit, currently being published on the **Money Laundering and Terror Financing Prohibition Authority – the Handling of Information Embodying Concern of Money Laundering and Terror Financing**, focuses on the Authority's handling of information that embodies concern of money laundering and terror financing. The two audit reports, prepared on this subject for the first time by the State Comptroller's Office, include many significant findings. The audited bodies have already begun to rectify, and it is appropriate that they continue until completion. It should be noted that all state institutions are committed to combat money laundering and terror financing, and operate in many arenas – covert and overt, local and international – and invest efforts, manpower and budget in doing so.

It should be noted that the audit procedure at the Money Laundering and Terror Financing Prohibition Authority (IMPA) was conducted according to the methodology implemented by the State Comptroller's Office, which differs from the methodology employed by FATF (Financial Action Task Force), the international umbrella organization in which 37 countries are members. The FATF established the international rules under which the Money Laundering and Terror Financing Prohibition Authority in the State of Israel was established and according to which it operates. These audits are therefore another layer designed to strengthen the existing anti-money laundering regime in Israel.

The responsibility for the proper operation of IMPA rests upon the Minister of Justice, the Director General of the Ministry of Justice, and the IMPA Director. These parties are obligated to ensure improvement in IMPA's core activity, and further improve the cooperation between it and the information customers. These are necessary to justify the imposition of the reporting regime and its costs on the public, to make an effective contribution to the investigative and security authorities, in particular in the war against organized crime, serious crime and terror financing, and that IMPA can fulfill its mandate according to law, efficiently and effectively.



The preparation of the report, like the ones preceding it, necessitated great effort on the part of the audit staff in my office, especially in the Defense System Audit Division and the Headquarters, who fulfill their public role out of a real sense of mission. The audit staff labored on the preparation of the report with all professionalism and thoroughness, and I thank them.

It is the duty of the audited bodies to speedily and effectively rectify the deficiencies raised in this audit report to strengthen the State of Israel security and the country's residents protection, to improve the well-being of those serving in the IDF and to fortify the defense industrial infrastructure.

A handwritten signature in blue ink, reading "Matanyahu Englman".

Matanyahu Englman
State Comptroller and
Ombudsman of Israel

Jerusalem, February 2023